

Virginia Retirement System 2012 Fiscal Impact Statement

1. Bill Number: SB 497

House of Origin ☐ Introduced ☐ Substitute X Engrossed
Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. Patron: Watkins

3. Committee: Finance

4. Title: Virginia Retirement System employee contributions; local employees; school board employees.

5. Summary: Virginia Retirement System employee contributions; local employees; school board employees. Requires that persons employed by local government or school board employers be required to pay the five percent employee contribution to the Virginia Retirement System. School boards would be authorized to allow a phase in of the payment of the five percent member contribution by their employees over a maximum of five years.

6. Budget Amendment Necessary: Yes. Item 468(K) of SB 30 as introduced would override the provisions of this bill as it precludes local employers from imposing member contributions upon Plan 1 employees if such employers had previously elected to pick them up on behalf of their employees. Item 468(K), unless removed, would frustrate the intent of this bill.

7. Fiscal Impact Estimates: None

8. Fiscal Implications: There will be no impact on the VRS trust fund from this bill, because it causes a change to the source of funds, not the amount of such funds. SB 497 simply shifts the source of employee contributions from employer to member for local employers and school boards, and allows school boards to phase in the five percent contribution over a period of up to five years for their employees. The substitute bill adds an enactment clause that requires localities and school boards to offset the increased contributions to be paid by their employees with an increase in total creditable compensation, effective July 1, 2012. The substitute bill allows school boards that choose to phase in the member contributions over five years to phase in the increase in creditable compensation at the same rate.

If every school board and every locality imposed the full 5% contribution on their employees, savings for the school boards and localities could total approximately \$539 million annually when fully phased-in. However, no such savings will be realized under the substitute as school boards and localities will offset the member contributions with corresponding pay raises.

9. Specific Agency or Political Subdivisions Affected: Local governments, political subdivisions, and school boards and their employees

10. Technical Amendment Necessary: No

11. Other Comments: Among the over 570 local employers in VRS, only 38 require Plan 1 employees (those hired prior to 7/1/2010) to pay the 5% member contribution. No school boards require member contributions from Plan 1 teachers. However, 122 local employers and 8 school boards require their Plan 2 employees to pay all or a portion of the 5% member contribution. This bill would require all Plan 1 and Plan 2 local employees to pay the 5% member contribution. The substitute bill also allows only school boards that choose to phase in the member contributions over five years and to phase in an increase in creditable compensation at the same rate.

All school board employees hired, or rehired, after July 1, 2012 would also be required to pay the 5% member contribution. However, school board employees hired prior to July 1, 2012 would, at the local school board's option, be allowed to phase in payment of the member contributions by contributing a minimum of an additional 1% of compensation on each July 1st of 2012, 2013, 2014, 2015, and 2016.

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